



(Knowledge for Development)
KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBF 211

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 19TH DECEMBER, 2022

TIME: 9.00AM – 11.00AM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 HOURS

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 5 Printed Pages. Please Turn Over.



SECTION A

QUESTION ONE (COMPULSORY)

a) The agency problem arises when one party, the principal employs another party, the agent to act on his behalf'. In the context of this, discuss how company manager's objectives may differ from those of shareholders and point out the strategies that the shareholders might put in place to protect themselves.

(10marks)

b) Discuss in detail five objectives of financial management

(5marks)

c) The financial management function is usually associated with the Chief Financial Officer. Discuss five roles of a finance manager

(5marks)

d) Explain in detail five important characteristics of capital budgeting decisions (5marks)

e) Explain why profit maximization is seen as a Cardinal or traditional goal (5marks)

SECTION B (ANSWER ANY TWO QUESTIONS)

QUESTION TWO

(a) Daima Investment Bank has provided the following information relating to two of its securities namely; A and B:

State of economy	Probability (P_i)	Security returns (%)	
		A	B
Stable	0.30	12	6
Expansion	0.40	15	7.5
Recession	0.30	10	5

Required:

i. The expected return for each security

(2marks)

ii. The standard deviation for each security

(2marks)

iii. The expected return of a portfolio constituting 60% of security A and 40% of security B.

(2marks)

- iv. Coefficient of variation and advice the investor (2marks)
- v. Covariance of the two securities (3marks)
- vi. The correlation coefficient between the two securities returns (3marks)
- vii. Compute the risk of the portfolio (6marks)

QUESTION THREE

Company ABC Ltd want to invest in one of the following two projects, A and B which require an initial cash outlay of Kshs. 1 000 000 and will pay an interest of 10% p.a on this money.

These projects will generate the following cash flows.

Year	Project A Shs.	Project B Shs.
1	500 000	600 000
2	40 000	160 000
3	100 000	40 000
4	600 000	500 000
5	160 000	100 000

Required:

Using the following capital budgeting methods indicate which machine is preferred. (4marks)

- i. Pay Back Period Method (8marks)
- ii. Net Present Value Method (8marks)
- iii. Profitability index

QUESTION FOUR

a) The primary function of the financial markets is to facilitate the transfer of funds from surplus sectors (lenders) to deficit sectors (borrowers). Compare and contrast primary markets and secondary markets under classification of financial markets as per seasoning of claims. (14 marks)

b) Find the future value of sh. 100,000 compounded at 6%

- | | |
|-------------------|-----------|
| i. Annually | (2 marks) |
| ii. Semi-annually | (2 marks) |
| iii. Quarterly | (2 marks) |

QUESTION FIVE

a) The capital structure of XYZ Limited is given as below:

	Sh. (000)
8,000,000 ordinary shares of sh.10 each	80,000
4,000,000 12% preference shares of sh.10 each	40,000
16% long term loan	5,000
8% Debentures	3,000
Total	128,000

Additional information:

- i) Ordinary shares are currently quoted at sh. 14 on the security exchange.
- ii) Ordinary shares have a dividend cover of 3 times and earnings per share of sh.6.
- iii) The 18% debentures were issued in 2009 at a price of sh. 100 and are due for redemption in 2017 at sh. 120.
- iv) The company incurred sh.400, 000 in floatation cost when raising the loan.
- v) The applicable tax rate is 30 %

Required:

- a) The company's growth in equity (4marks)
- b) The company's Weighted cost of capital (6marks)

b) Kenya limited requires 2,000 components in the coming year which costs shs.50 each. The items are available locally at a lead time of one week. An order costs shs.50 to prepare and process while the holding costs amounts to shs.15 per unit per year for storage plus a 10% opportunity cost of order costs.

Required:

- i. Economic Order Quantity
- ii. Number of orders in a year
- iii. Re-order level
- iv. Total cost

(3marks)

(2marks)

(2marks)

(3marks)